



Impact of Liquidity on Sales-A Cash Study of Krishak Bharati Cooperative Ltd. (Kribhco)

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ABSTRACT

KRIBHCO a multi-state co-operative society was incorporated on 17th April, 1980. KRIBHCO was incorporated to produce and distribute fertilizer and allied farm contributions through co-operative and institutional channels. Their memberships are 7374 co-operative societies at village, district, state, the national level. KRIBHCO ammonia-urea compound is situated at Hazira near Surat in Gujarat, containing four streams of urea plant. The scrutiny of the financial statement revealed that the sales are quite satisfactory in KRIBHCO. This study emphasizes on the impact of liquidity on sales of KRIBHCO. Ten years' data and Step wise Regression Analysis is used for the purpose. The study reveals that amongst given two liquidity parameters quick ratio having impact on sales.

KEYWORDS

Liquidity Profitability Dependent Variable Independent Variables

INTRODUCTION

KRIBHCO, a national level co-operative at the present, producing and marketing more than 37 lakh mt urea, 1.5 lakh quintals soaring quality seeds, more than 600 mt of quality biofertilisers in further than 15 states of the nation. Its dedicated turf force of more than 500 agriculture graduates increase over most of the districts of the nation, not only ensure farmers receiving required agro-inputs on time although also educate them on latest techniques of farming. KRIBHCO's aim of farm advisory services leftovers, "Consumers' Prosperity all the way through Sales Promotion" with 3 dedicated objectives of Agriculture Development, Co-operative Development and Rural Development. As far as this KRIBHCO has conducted 51 thousands programmes with shortest involvement of 45 lakh farmers and co-operatives during 1984-2005 and 7.6 thousand programmes openly benefiting more than 9 lakh farmers during the last three year

KRIBHCO a multi-state co-operative society was incorporated on 17th April, 1980. KRIBHCO was incorporated to produce and distribute fertilizer and allied farm contributions through co-operative and institutional channels. KRIBHCO has entirely imbibed the cooperative philosophy and has made continued efforts towards promoting the reason of modern agriculture and co-operative in the country. A co-operative thrives on the trust and concern of its members. Their memberships are 7374 co-operative societies at village, district, state, the national level. KRIBHCO ammonia-urea compound is situated at Hazira near Surat in Gujarat, containing four streams of urea plant. The energy utilization for production of ammonia is buck compared to similar gas based plants, resulting in low cost of manufacture and lowest dependence on subsidy as of Govt. of India.

KRIBHCO and their membership have steadily increased to 7374 with a share capital of Rs.390.18 crores (as on 31st March, 2013). The analysis of the financial performance of the KRIBHCO revealed that the total income after tax (PAT) and sales are quite enough as well as it is around Rs. 295.55 crores and 2202.54 crores correspondingly in the year 2012-13. The Profitability of KRIBHCO is very much linked to its liquidity position. This study highlights on the effect of liquidity on profitability of KRIBHCO

The production goal for the Financial Year 2013-2014 has been set as 21.61 Lakh MT for Urea and 12.67 Lakh MT for Ammonia. Your Society is planning to manufacture 50% of the total Urea (10.80 Lakh MT) as Neem Coated Urea.

During the Financial Year, 2012-13, Your Society's Hazira Plant

was in the 27th year of commercial production. This was the 1st Financial Year following completion of Revamp Project. The production attained during the Financial Year was 12.50 lakh MT Ammonia and 21.36 lakh MT Urea that corresponds to a capacity utilization of 102.49% for Ammonia as well as 99.69% for Urea. The manufacture of Urea could have been still high but it was restricted due to 2 limited availability of CO₂ because of lean natural gas feedstock. For the first time, Your Society started the production and send away of Neem Coated Urea throughout the Financial Year.

Society made timely dispatches of possess Urea, as per Monthly Movement Order issued by DOF for ECA and for de-regulated mass from Hazira Plant to various destinations. It has tried to match Business plan quantities for dissimilar states. The Society dispatched the substance by utilizing the Rail and Road mix. During the year 21.40 lakh MT of own Urea was dispatched to dissimilar destinations in the country. The Society has made important achievements on marketing fronts and has achieved the sales of fertilizers to the tune of 41.99, lakh MT during the year. The Society has sold 21.15 lakh MT of KRIBHCO Urea that includes 94960 MT of Neem coated Urea , 8.93 Lakh MT of OMIFCO Urea, 9.95 Lakh MT of KSFL Urea during the year. With the purpose of promote balanced fertilization, the Society more expanded its products range to cover DAP too. The Society sold 1.96 lakh MT of Imported DAP as well as DAP Lite as against 3.09 lakh MT of previous year. Apart from Urea, the Society too sold 29,937MT of Surplus Ammonia during the year as against 65,610MT in three the previous year. The Society has too sold 26, 09,586 NM liquid Argon during the year.

OBJECTIVES

The specific objectives of the study are spelt out below:

- To identify the independent variables that are most effective in predicting the profit
- To ascertain the statistical relationship between the independent variables and dependent variable
- To ascertain degree of correlation between independent variables and dependent variable
- To ascertain potential for increased Profitability through improved liquidity position

RESEARCH METHODOLOGY

Sampling Size

Table – 1

Variables	Mean	Std. Deviation	N
Sales	1545.1000	462.5741	10

Current Ratio	3.5080	1.5644	10
Quick Ratio	3.1230	1.4473	10

The minimum ratio of valid cases to independent variables for stepwise multiple regression is 5 to 1. With 10 valid cases and 2 independent variables, the ratio for this analysis is 5 to 1, which satisfies the minimum requirement.

Analytical Procedure

Stepwise Regression analysis was used to meet objectives of study. The regression equation was fitted for Profit. The regression equation includes the following variables:

$Y = f(X1, X2)$

Where,

Y = Sales (Rs. in Crore.)

X1 = Current Ratio (Current Assets/Current Liabilities)

X2 = Quick Ratio (Current Assets-Inventory/Current Liabilities-Bank OD)

HYPOTHESES OF THE STUDY

Hypotheses 1: Liquidity ratios are equally effective in predicting the sales

Hypotheses 2:There is no significant relationship between the liquidity ratio and sales

Hypotheses 3:There is equal correlation between the liquidity ratio and sales

RESULTS AND DISCUSSIONS

Hypotheses 1:

Liquidity ratios are equally effective in predicting the sales

Table – 2

Model	Variables Entered	Variables Removed	Method
1	Quick Ratio	.	Stepwise (Criteria: Probability-of-F-to-enter <= .050, Probability-of-F-to-remove >= .100).

As shown in Table 2, Liquidity Ratios are not equally effective in predicting the sales. The only important predictor of sales is Quick Ratio. Thus, hypothesis 1 is rejected.

Hypotheses 2:

There is no significant relationship between the liquidity ratio and sales

Table – 3

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1885325.7	1	1885325.748	372.897	.000 (a)
	Residual	40447.152	8	5055.894		
	Total	1925772.9	9			

As shown in Table 3, the probability of the F-statistic (372.897) for the regression relationship is 0.000, which less than or equal to the level of significance of 0.05. It indicates that there is a statistically significant relationship between the quick ratio and sales. Thus, hypothesis 2 is rejected for quick ratio while accepted for current ratio.

Hypotheses 3:

There is equal correlation between the liquidity ratio and sales

Table – 4

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996(a)	.979	.976	71.1048

(a) Predictors: (Constant), Quick Ratio

As shown in Table 4, the multiple R for the relationship between the Quick Ratio and Sales is 0.996, which would be characterized as very strong using the rule of thumb while the relationship between the Current Ratio and Sales is not significant. Thus, hypothesis 3 is rejected.

CONCLUSION

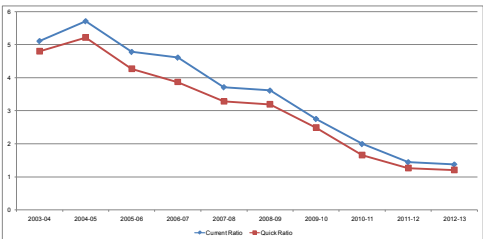
The result indicates that both liquidity ratios are not equally important in generating sales in KRIBHCO. A wide variation in Sales within the liquidity ratio was observed. Quick Ratio has greater contribution in terms of generating Sales to KRIBHCO. The Quick Ratio represents the percentage of Current Assets (excluding inventories) to Current Liabilities (excluding bank overdraft). Thus, there is strong need to rationalize the inventories held and Bank Overdrafts used by KRIBHCO. This will results in improved liquidity and thereby improved sales of KRIBHCO.

ANNEXURE – 1

Year	Current Ratio	Quick Ratio	Sales (Rs. In Crore)
2003-04	5.11	4.8	979
2004-05	5.71	5.22	924
2005-06	4.78	4.27	1257
2006-7	4.61	3.87	1344
2007-8	3.71	3.28	1386
2008-09	3.61	3.19	1512
2009-10	2.75	2.49	1637
2010-11	1.99	1.65	2073
2011-12	1.44	1.26	2132
2012-13	1.37	1.2	2207

Source: Computed from the annual reports and accounts of KRIBHCO

ANNEXURE – 2



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